

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

The Robert A. Welch Foundation

August 31, 2022 and 2021

Contents

Page

Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated statements of financial position	5
Consolidated statements of activities	6
Consolidated statements of cash flows	8
Notes to consolidated financial statements	9

GRANT THORNTON LLP

500 N. Akard St., Suite 1200
Dallas, Texas 75201

D +1 214 561 2300

F +1 214 561 2370

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Robert A. Welch Foundation

Opinion

We have audited the consolidated financial statements of The Robert A. Welch Foundation and its limited partnership, the RWF Fund, LP, (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of August 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of August 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of RWF Fund, LP, a limited partnership of which the Foundation is the sole limited partner, which statements reflect total assets of 58% and 50% of consolidated total assets at August 31, 2022 and 2021, respectively, total net assets of 64% and 56% of consolidated total net assets as of August 31, 2022 and 2021, respectively, and total revenues of 35% and 21%, of consolidated total revenues, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us. Our opinion, insofar as it relates to the amounts included for RWF Fund, LP, is based solely on the report of the other auditors.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's responsibilities for the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Dallas, Texas
June 7, 2023

The Robert A. Welch Foundation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 3,646,386	\$ 33,870,414
INVESTMENTS	860,418,996	917,710,334
RECEIVABLES		
Investment transactions	981,603	1,060,363
Interest and dividends	-	39,217
Other	885,686	898,084
Total receivables	<u>1,867,289</u>	<u>1,997,664</u>
OTHER ASSETS	<u>976,849</u>	<u>1,105,386</u>
Total assets	<u><u>\$ 866,909,520</u></u>	<u><u>\$ 954,683,798</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Unpaid grants	\$ 90,132,264	\$ 103,553,441
Current and deferred federal excise tax payable	2,630,485	4,654,404
Accounts payable and other	294,159	255,997
Total liabilities	<u>93,056,908</u>	<u>108,463,842</u>
NET ASSETS (DEFICIT)		
With donor restrictions	864,065,139	949,854,968
Without donor restrictions	<u>(90,212,527)</u>	<u>(103,635,012)</u>
Total net assets	<u>773,852,612</u>	<u>846,219,956</u>
Total liabilities and net assets	<u><u>\$ 866,909,520</u></u>	<u><u>\$ 954,683,798</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

The Robert A. Welch Foundation
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended August 31, 2022

	2022		
	With Donor Restrictions	Without Donor Restrictions	Total
Revenues, income, and gains (losses)			
Interest and dividends	\$ 8,681	\$ 6,141,565	\$ 6,150,246
Oil and gas royalties and other	-	9,027,169	9,027,169
Net realized gains on sales of investments	43,017,760	-	43,017,760
Unrealized depreciation of investments	(98,553,299)	-	(98,553,299)
Unrealized depreciation of other assets	(58,214)	-	(58,214)
Investment management expenses	-	(3,523,414)	(3,523,414)
Federal excise tax provision	-	(1,230,209)	(1,230,209)
Total revenues, income, and gains	(55,585,072)	10,415,111	(45,169,961)
Expenses			
Grants approved, net	-	24,822,647	24,822,647
Grants administration	-	2,813,382	2,813,382
General and administrative	-	1,717,487	1,717,487
Total expenses	-	29,353,516	29,353,516
Deferred federal excise tax benefit on unrealized capital gains	2,156,133	-	2,156,133
Restricted to unrestricted transfer	(32,513,649)	32,513,649	-
Allocation of restricted to unrestricted	152,759	(152,759)	-
CHANGE IN NET ASSETS	(85,789,829)	13,422,485	(72,367,344)
Net assets (deficit), beginning of year	949,854,968	(103,635,012)	846,219,956
Net assets (deficit), end of year	\$ 864,065,139	\$ (90,212,527)	\$ 773,852,612

The accompanying notes are an integral part of these consolidated financial statements.

The Robert A. Welch Foundation
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended August 31, 2021

	2021		
	With Donor Restrictions	Without Donor Restrictions	Total
Revenues, income, and gains (losses)			
Interest and dividends	\$ 10,387	\$ 3,858,550	\$ 3,868,937
Oil and gas royalties and other	-	3,384,446	3,384,446
Net realized gains on sales of investments	54,143,024	-	54,143,024
Unrealized appreciation of investments	182,202,713	-	182,202,713
Unrealized depreciation of other assets	(16,739)	-	(16,739)
Investment management expenses	-	(3,526,151)	(3,526,151)
Federal excise tax provision	-	(539,176)	(539,176)
Total revenues, income, and gains	<u>236,339,385</u>	<u>3,177,669</u>	<u>239,517,054</u>
Expenses			
Grants approved, net	-	23,115,404	23,115,404
Grants administration	-	3,141,221	3,141,221
General and administrative	-	1,296,910	1,296,910
Total expenses	<u>-</u>	<u>27,553,535</u>	<u>27,553,535</u>
Deferred federal excise tax provision on unrealized capital gains	(2,840,620)	-	(2,840,620)
Restricted to unrestricted transfer	(31,192,665)	31,192,665	-
Allocation of restricted to unrestricted	<u>(768,416)</u>	<u>768,416</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>201,537,684</u>	<u>7,585,215</u>	<u>209,122,899</u>
Net assets (deficit), beginning of year	<u>748,317,284</u>	<u>(111,220,227)</u>	<u>637,097,057</u>
Net assets (deficit), end of year	<u><u>\$ 949,854,968</u></u>	<u><u>\$ (103,635,012)</u></u>	<u><u>\$ 846,219,956</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

The Robert A. Welch Foundation
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (72,367,344)	\$ 209,122,899
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gain on sales of investments	(43,017,760)	(54,143,024)
Unrealized depreciation (appreciation) of securities	98,553,299	(182,202,713)
Changes in operating assets and liabilities		
Decrease (increase) in receivables	130,375	(583,561)
Decrease in other assets	128,537	473,549
Decrease in unpaid grants	(13,421,177)	(7,716,307)
(Decrease) increase in current and deferred federal excise taxes payable	(2,023,919)	2,840,620
Increase in accounts payable and other	38,162	28,428
	<u>(31,979,827)</u>	<u>(32,180,109)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of investments	(106,911,396)	(98,338,018)
Proceeds from sales of investments	75,007,721	116,395,406
Return of capital	33,659,474	31,396,886
	<u>1,755,799</u>	<u>49,454,274</u>
Net cash provided by investing activities		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(30,224,028)</u>	<u>17,274,165</u>
Cash and cash equivalents, beginning of year	<u>33,870,414</u>	<u>16,596,249</u>
Cash and cash equivalents, end of year	<u>\$ 3,646,386</u>	<u>\$ 33,870,414</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for federal excise taxes	<u>\$ 700,000</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Robert A. Welch Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Foundation

The Robert A. Welch Foundation (the "Foundation") is a private foundation created under the terms of the founder's will. The Foundation is a Texas nonprofit corporation and it is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Foundation is to receive and maintain real and personal property and to use, exclusively within the state of Texas, such income therefrom to assist research in the field of chemistry, with the discoveries and inventions made available to mankind.

Basis of Accounting

The accounts of the Foundation, which are maintained on the accrual basis of accounting, reflect investments at estimated fair value. Based on the Uniform Principal and Income Act of Texas, the Foundation allocates a percentage of the gross mineral revenue to the Principal Fund and will allocate a percentage of certain expenses to the Principal Fund.

Consolidation

The consolidated financial statements include the accounts of the RWF Fund, LP (the "Partnership") in which the Foundation is the sole limited partner. The Partnership is a limited partnership which commenced on November 2, 2010 pursuant to the Revised Uniform Limited Partnership Act of the State of Delaware. All material intercompany transactions have been eliminated in consolidation.

Use of Estimates

Preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Asset Classification

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions - These net assets are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets with donor restrictions are net assets required to be maintained in perpetuity, with only the income to be used for the Foundation's activities, due to donor-imposed restrictions. The Foundation's assets are primarily maintained in permanently restricted net assets according to the last will and testament of Robert A. Welch.

Included in the net assets with donor restrictions is the Section 10 Fund. Under the Section 10 Fund, \$500,000 of the Foundation's original principal was set aside to be used for the purpose of extending financial aid to current and former employees of the Foundation or their families, in need. At each year end, any Section 10 net assets over \$500,000 in value are transferred to net assets without donor restrictions or maintained in net assets without donor restrictions as applicable.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Except as required by the Internal Revenue Code Section 4942 ("IRC Section 4942") (which may require a distribution of principal), all distributions from the Foundation, other than distributions from the Section 10 Fund, shall be limited to the net income of the Foundation (determined on a cash basis), and shall include no part of the principal which shall be kept intact and never expended, but used as the endowment fund of the Foundation.

In accordance with the last will of Robert A. Welch (the "Will"), for purposes of determining the amount of required distributions, the assets of the Foundation are accounted for as income and principal by application of the provisions of the Will and the Texas Trust Code and, consistent with the Texas Trust Code, consideration received on the sale or transfer of principal (i.e., realized capital gains and losses), is allocable to principal and therefore, does not constitute income. Consequently, realized and unrealized gains and losses are considered permanently restricted by the Foundation.

To maintain its private foundation status, the IRC Section 4942 requires that 5% of the average assets, as defined by IRC Section 4942, are required to be distributed for its charitable purpose. As provided in the Bylaws of the Foundation, if income is insufficient to meet this requirement, principal may be used. Consequently, when required, a distribution is made from the Principal Fund to the Income Fund. During 2022 and 2021, \$32,513,649 and \$31,192,665, respectively, was transferred from the Principal Fund to the Income Fund.

Cash and Cash Equivalents

The Foundation considers all highly liquid financial instruments with an original maturity of 90 days or less, except those assigned to investment advisors, to be cash equivalents.

Other Assets

Other assets are principally comprised of property, plant and equipment, prepaid expenses, and the Section 10 Fund.

Unpaid Grants

Grants are recorded as an expense and a liability upon approval of the grants by the Foundation's Board of Directors. Such grants are presented net of grants returned of \$845,382 and \$1,079,064 and terminations of \$802,500 and \$251,250 for the years ended August 31, 2022 and 2021, respectively (see Note D).

Future Accounting Pronouncements

In February 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The FASB issued the update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This amendment is effective for fiscal years beginning after December 15, 2021, and early adoption is permitted. At this time, the Foundation has evaluated the implications of ASU 2016-02 and its effects on the consolidated financial statements and estimates a right of use asset of \$1,357,000 and right of use liability of \$1,357,000 as of September 1, 2022.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE B - INVESTMENTS

Investments are comprised of equities, alternative investments, fixed income and other investments. Equities and fixed income are reported at fair value, which is based on quoted market prices when available using the market approach. Realized and unrealized gains and losses on investments are computed by comparing cost, determined on an average cost per share basis, to sales proceeds and quoted market values, respectively.

Alternative investments are valued in accordance with fair value standards applicable to their asset class. For investments with limited marketability, including investments in some partnerships, the Foundation follows the accounting guidance related to the use of net asset value ("NAV") as the practical expedient. Partnership investments are valued at fair value by the general partner in accordance with U.S. GAAP.

There are inherent limitations in any estimation technique. Because of the inherent uncertainty of valuation, the estimated fair value may differ significantly from the value that would have been used had a ready market for the investments existed, and the difference could be significant.

The Foundation had unfunded investment purchase commitments related to private equity funds of \$154,707,275 as of August 31, 2022 and \$130,363,286 as of August 31, 2021.

Other investments are comprised of mineral royalty and fee interests in oil and natural gas located in various states. These properties have a historical cost of \$3,111,782 at August 31, 2022 and 2021, and an equity investment in a limited partnership with a historical cost of \$176,667 at August 31, 2022 and 2021. The Foundation recorded an increase of \$9,507,802 and \$6,374,474 to these mineral and fee properties and the limited partnership investments in 2022 and 2021, respectively. Mineral property investments are valued based on a multiple of income approach for August 31, 2022 and 2021. Fee properties are recorded based on tax appraisals for August 31, 2022 and August 31, 2021.

The Foundation's investment policy seeks to preserve the capacity to fund grants both now and in the future. To this end, the basic objective is to seek maximum total return consistent with an acceptable level of risk, balancing the preservation of capital with the generation of returns sufficient to meet or exceed the sum of the Foundation's payout requirements, the rate of inflation, and all costs associated with managing the Foundation's assets.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE B - INVESTMENTS - CONTINUED

To satisfy these investment objectives, the Foundation's assets are invested in a diversified portfolio with an emphasis on equity investments.

Fair value, cost, and cumulative unrealized gains on investments as of August 31, 2022 and 2021, were as follows:

	2022		
	Fair value	Cost	Cumulative unrealized gains (losses)
Domestic equity	\$ 168,158,775	\$ 126,560,999	\$ 41,597,776
International equity	90,692,102	62,022,909	28,669,193
Emerging market	43,015,754	44,396,861	(1,381,107)
Hedge fund	73,467,990	63,181,941	10,286,049
Private equity	393,137,250	255,790,405	137,346,845
Fixed income:			
Domestic	53,476,297	58,258,493	(4,782,196)
International	15,343,191	12,045,380	3,297,811
Other investments (primarily mineral and fee properties)	23,127,637	3,288,449	19,839,188
Total	<u>\$ 860,418,996</u>	<u>\$ 625,545,437</u>	<u>\$ 234,873,559</u>
	2021		
	Fair value	Cost	Cumulative unrealized gains
Domestic equity	\$ 170,693,693	\$ 105,077,878	\$ 65,615,815
International equity	130,830,769	64,836,864	65,993,905
Emerging market	56,103,322	46,066,694	10,036,628
Hedge fund	78,770,856	64,778,711	13,992,145
Private equity	388,856,162	230,143,648	158,712,514
Fixed income:			
Domestic	60,470,374	57,990,582	2,479,792
International	18,365,323	12,100,650	6,264,673
Other investments (primarily mineral and fee properties)	13,619,835	3,288,449	10,331,386
Total	<u>\$ 917,710,334</u>	<u>\$ 584,283,476</u>	<u>\$ 333,426,858</u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE C - FAIR VALUE OF INVESTMENTS

The Foundation has estimated fair value of financial instruments in accordance with the fair value guidance. The Foundation's significant financial instruments consist of cash and cash equivalents, investments, receivables, other assets, unpaid grants, and other liabilities. The carrying amounts for cash and cash equivalents, receivables, other assets, and other liabilities approximate fair value because of the short-term nature of these items. The fair value of investments is described in Note B.

ASC 820 *Fair Value Measurements and Disclosures* establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Foundation's assumptions (unobservable inputs). Determining the level at which an asset or liability falls within the hierarchy requires significant judgment considering the lowest level input that is significant to the fair value measurement as a whole. The hierarchy consists of three broad levels, as follows, with Level 1 being the most observable:

Level 1 - Quoted market prices in active markets for identical assets or liabilities;

Level 2 - Quoted market prices in active or inactive markets for similar assets or liabilities and inputs other than quoted prices that are observable; and

Level 3 - Unobservable inputs developed using the Foundation's and/or third-party estimates and assumptions, which reflect those that market participants would use.

The following tables present information about the Foundation's long-term investments that are measured at fair value as of August 31, 2022 and 2021 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2022			
	Level 1	Level 2	Level 3	Total
Domestic equity	\$ 94,028,969	\$ -	\$ -	\$ 94,028,969
International equity	-	6,618,054	-	6,618,054
Emerging market	-	22,261,969	-	22,261,969
Hedge fund	-	-	15,546,368	15,546,368
Private equity	-	-	393,137,250	393,137,250
Fixed income	38,029,570	-	-	38,029,570
Other investments (primarily mineral and fee properties)	-	-	23,127,637	23,127,637
Total	<u>\$ 132,058,539</u>	<u>\$ 28,880,023</u>	<u>\$ 431,811,255</u>	<u>592,749,817</u>
NAV investments				<u>267,669,179</u>
Total fair value				<u>\$ 860,418,996</u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE C - FAIR VALUE OF INVESTMENTS - CONTINUED

	2021			
	Level 1	Level 2	Level 3	Total
Domestic equity	\$ 85,137,358	\$ -	\$ -	\$ 85,137,358
International equity	-	17,980,821	-	17,980,821
Emerging market	-	29,417,206	-	29,417,206
Private equity	-	-	388,842,842	388,842,842
Fixed income	42,972,974	-	-	42,972,974
Other investments (primarily mineral and fee properties)	-	-	13,619,835	13,619,835
Total	<u>\$ 128,110,332</u>	<u>\$ 47,398,027</u>	<u>\$ 402,462,677</u>	577,971,036
NAV investments				<u>339,739,298</u>
Total fair value				<u>\$ 917,710,334</u>

It is the policy of the Foundation to transfer investments between the levels of the fair value hierarchy if a change occurs within the underlying investment.

During the years ended August 31, 2022 and 2021, no investments were transferred between levels.

The following tables present additional information about assets that have been measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of August 31, 2022 and August 31, 2021:

	2022				
	Beginning balance	Additions, contributions, transfers in	Distributions, redemptions, transfers out	Unrealized gain (losses)	Ending balance
Private equity	\$ 388,842,842	\$ 59,594,563	\$ (33,661,378)	\$ (21,638,777)	\$ 393,137,250
Hedge fund	-	18,650,285	(3,684,375)	580,458	15,546,368
Other investments (primarily mineral and properties)	13,619,835	-	-	9,507,802	23,127,637
Total	<u>\$ 402,462,677</u>	<u>\$ 78,244,848</u>	<u>\$ (37,345,753)</u>	<u>\$ (11,550,517)</u>	<u>\$ 431,811,255</u>

	2021				
	Beginning balance	Additions, contributions, subscriptions	Distributions, redemptions, transfers out	Unrealized gains	Ending balance
Private equity	\$ 255,760,924	\$ 53,535,601	\$ (27,947,769)	\$ 107,494,086	\$ 388,842,842
Other investments (primarily mineral and fee properties)	7,245,361	-	-	6,374,474	13,619,835
Total	<u>\$ 263,006,285</u>	<u>\$ 53,535,601</u>	<u>\$ (27,947,769)</u>	<u>\$ 113,868,560</u>	<u>\$ 402,462,677</u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE C - FAIR VALUE OF INVESTMENTS - CONTINUED

The Foundation follows the accounting guidance related to the use of NAV as a practical expedient. As a result of applying the practical expedient, the Foundation's fair value in certain investments was determined based on the NAV. The following table discloses investments valued at NAV:

	<u>2022 Fair Value</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Unfunded commitment</u>
Domestic equity (a)	\$ 74,129,805	Daily	1 day notice	None
International equity (b)	84,074,048	Daily to annually	1 to 45 days notice	None
Emerging markets (c)	20,753,785	Daily to monthly	1 to 60 days notice	None
Hedge fund (d)	57,921,622	Monthly to annually	5 to 90 days notice	None
International fixed income (f)	15,343,191	Daily	10 days notice	None
Treasury inflation-protection security (g)	<u>15,446,728</u>	Daily	1 day notice	None
Total	<u>\$ 267,669,179</u>			

	<u>2021 Fair Value</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Unfunded commitment</u>
Domestic equity (a)	\$ 85,556,335	Daily	1 day notice	None
International equity (b)	112,849,947	Monthly to annually	10 to 45 days notice	None
Emerging markets (c)	26,686,116	Monthly	6 to 60 days notice	None
Hedge fund (d)	78,770,856	Monthly to annually	5 to 90 days notice	None
Private equity (e)	13,321	None	No redemption ability	None
International fixed income (f)	18,365,323	Daily	10 days notice	None
Treasury inflation-protection security (g)	<u>17,497,400</u>	Daily	1 day notice	None
Total	<u>\$ 339,739,298</u>			

- (a) This is an investment in a fund that invests primarily in U.S. stocks in all market capitalization ranges.
- (b) This is an investment in funds that invests in equity securities of companies located in any country other than the U.S.
- (c) This is an investment in a fund seeking to achieve long-term capital growth by investing in emerging markets.
- (d) This is an investment in hedge funds that aims to achieve a positive return on investment whether markets are rising or falling.
- (e) This is an investment in a fund that invests in global-distressed assets.
- (f) This is an investment in a fund seeking to achieve interest income and long-term capital appreciation in U.S. fixed income investments and non-U.S. sovereign debt securities.
- (g) This is an investment in inflation protected U.S. government bonds.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE D - UNPAID GRANTS

The Foundation's unpaid grants at August 31, 2022 represent commitments for grant disbursements approved but not paid of \$19,895,744 in 2023; \$16,608,500 in 2024; \$13,706,250 in 2025; \$10,250,000 in 2026; \$10,150,000 in 2027; \$10,050,000 in 2028; \$10,000,000 in 2029 and \$9,750,000 in 2030.

The components of unpaid grants as of August 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Unpaid grants - beginning of the year	\$ 103,553,441	\$ 111,269,748
Grants approved - net	35,100,878	28,299,307
Grants disbursed	<u>(38,243,825)</u>	<u>(30,831,711)</u>
Unpaid grants - end of year before discount	100,410,494	108,737,344
Less discount to reflect grants payable at present value	<u>(10,278,230)</u>	<u>(5,183,903)</u>
Unpaid grants - end of year	<u><u>\$ 90,132,264</u></u>	<u><u>\$ 103,553,441</u></u>

The unpaid grants primarily account for the net deficit in the Income Fund of \$90,212,527 and \$103,635,012 as of August 31, 2022 and 2021, respectively, as the grants are approved but not yet paid as of year-end.

Grant disbursements are made first from accumulated investment earnings and, if required to meet the minimum distribution requirements of IRC Section 4942, from the Principal Fund.

NOTE E - FEDERAL EXCISE TAX AND DEFERRED INCOME TAX

Federal Excise Tax

The Foundation is classified as a private foundation as defined in IRC Section 4942. For tax years beginning after December 20, 2019, there is a fixed rate of 1.39% on net investment income. This has been applied to the deferred federal excise tax reporting.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE E - FEDERAL EXCISE TAX AND DEFERRED INCOME TAX - CONTINUED

The Foundation is required to make certain qualifying distributions in order to maintain its private foundation status. Such required distributions have been or will be accomplished through the payment of grants and the operation of the Foundation's grant program. The components of the Foundation's federal excise tax provision for the years ended August 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Federal excise tax provision on net investment income other than realized capital gains	\$ 146,182	\$ 96,119
Federal excise tax on realized capital gains	<u>1,084,027</u>	<u>443,057</u>
Current federal excise tax provision	1,230,209	539,176
Deferred federal excise tax (benefit) provision on unrealized capital gains	<u>(2,156,133)</u>	<u>2,840,620</u>
Total federal excise tax (benefit) expense	<u><u>\$ (925,924)</u></u>	<u><u>\$ 3,379,796</u></u>

The Foundation records deferred taxes for temporary differences in the recognition of gains and losses for tax and financial reporting purposes. The components of federal excise tax payable as of August 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Current and deferred federal tax excise payable	<u><u>\$ 2,630,485</u></u>	<u><u>\$ 4,654,404</u></u>

Deferred Income Tax

As of August 31, 2022 and 2021, The Foundation has federal income tax net operating loss ("NOL") carryforwards that result in the following deferred income tax asset:

	<u>2022</u>	<u>2021</u>
Deferred Income tax asset	\$ 2,286,225	\$ 2,678,669
Income Tax Valuation Allowance	<u>(2,286,225)</u>	<u>(2,678,669)</u>
Deferred Income tax asset - End of Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The Foundation believes that it is more likely than not that the benefit from federal NOL carryforward will not be realized. In recognition of this risk, the Foundation has provided a valuation allowance of \$2,286,225 and \$2,678,669 on the deferred tax assets related to the federal NOL carryforward for the years ended August 31, 2022 and 2021, respectively. If its assumptions change and the Foundation determines that it will be able to realize the NOL, the tax benefits related to any reversal of the valuation allowance on deferred tax assets as of August 31, 2022 and 2021, will be accounted for accordingly.

NOTE F - RELATED PARTY TRANSACTIONS

There were no related party transactions during the year ended August 31, 2022 or 2021.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE G - EMPLOYEE BENEFIT PLANS

Employees are eligible to participate in the Thrift Plan of The Robert A. Welch Foundation under which all employees may contribute a whole percentage from 1% to 50% of defined compensation (up to \$20,500 in 2022 and \$19,500 in 2021). The Foundation makes matching contributions in an amount equal to 100% of the amount of before-tax contributions made on the employees' behalf that were not in excess of 3% of their compensation plus 50% of the amounts that were between 3% and 6% of employee compensation. The Foundation contributes 12% to the employee's plans. The Foundation made contributions of \$201,371 and \$183,458 to the Thrift Plan in 2022 and 2021, respectively.

NOTE H - COMMITMENTS AND CONTINGENCIES

The Foundation leases office space under a 10-year operating lease. Under the lease, annual minimum base rentals are approximately \$373,000 as of August 31, 2022 and are subject to annual 2.5% increases through the term of the lease which expires on February 28, 2026. The lease contains two five-year renewal options or one 10-year renewal option. Base rental and operating expenses for the years ended August 31, 2022 and 2021 were approximately \$565,000 and \$542,000, respectively.

The Foundation entered into a sublease agreement with a sublessee on September 3, 2021. The rent collected from the sublessee for the year ended August 31, 2022 was \$201,252. Sublease rent increases approximately 2% through the end of the sublease on February 25, 2026.

NOTE I - FUNCTIONAL EXPENSES

Functional expenses present expenses by function and natural classification. Costs are allocated between grant-related expenses and expenses related to management and general costs. Those expenses include payroll and employee costs, board and professional fees, occupancy, and other operating costs. Payroll and employee costs are allocated based on estimates of time and effort. Board and professional fees are allocated based on the services provided. Occupancy costs are allocated based on square footage. Other operating costs are allocated based on time and effort, the nature of the specific expenditure, and square footage.

The following is a functional classification of the Foundation's expenses:

	2022			
	Grants approved, net	Grant administration	General and administrative	Total
Grants approved, net	\$ 24,822,647	\$ -	\$ -	\$ 24,822,647
Payroll and employee costs	-	1,447,204	852,145	2,299,349
Board and professional fees	-	1,006,752	175,785	1,182,537
Occupancy	-	30,366	535,769	566,135
Other operating costs	-	329,060	153,788	482,848
Total functional expenses	<u>\$ 24,822,647</u>	<u>\$ 2,813,382</u>	<u>\$ 1,717,487</u>	<u>\$ 29,353,516</u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE I - FUNCTIONAL EXPENSES - CONTINUED

	2021			
	Grants approved, net	Grant administration	General and administrative	Total
Grants approved, net	\$ 23,115,404	\$ -	\$ -	\$ 23,115,404
Payroll and employee costs	-	1,301,158	780,914	2,082,072
Board and professional fees	-	1,199,148	169,542	1,368,690
Occupancy	-	336,819	204,865	541,684
Other operating costs	-	304,096	141,589	445,685
Total functional expenses	<u>\$ 23,115,404</u>	<u>\$ 3,141,221</u>	<u>\$ 1,296,910</u>	<u>\$ 27,553,535</u>

NOTE J - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available within one year of the consolidated statements of financial position date for general expenditure are as follows:

	2022	2021
Cash and cash equivalents	\$ 3,646,386	\$ 33,870,414
Liquid investments (excludes private equity and other investments)	444,154,108	515,234,336
Receivables and other investments	<u>1,867,289</u>	<u>1,997,664</u>
Financial assets available for general expenditures within one year	449,667,783	551,102,414
Amounts unavailable to management without Board's approval	<u>(444,154,108)</u>	<u>(515,234,336)</u>
Total financial assets available to management within one year	<u>\$ 5,513,675</u>	<u>\$ 35,868,078</u>

As part of the Foundation's liquidity management, it maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Foundation has a line of credit with a margin borrowing capacity up to \$33 million as of August 31, 2022. The use of this line of credit is generally restricted to the extent that the Foundation is in need of liquidity to fund grant and program related obligations. As of August 31, 2022, the line of credit balance is \$0.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2022 and 2021

NOTE K - SUBSEQUENT EVENTS

The Foundation evaluated all events or transactions that occurred after August 31, 2022, up through June 7, 2023, the date the consolidated financial statements were available to be issued. During this period, the follow events occurred.

On November 30, 2022 the Foundation entered into a 11 year operating office lease commencing on March 30, 2023. Under the lease, the first year of base rent is abated. Annual minimum base rentals are approximately \$170,000 beginning April, 2024 and are subject to approximately 2% increases through the term of the lease which expires March 31, 2034. The lease contains two five-year renewal options or one 10-year renewal option.